

Student's Name

Professor's Name

Course

Date

The U.S. Government Should End Tax Breaks and Subsidies for Oil Companies

Tax break and subsidies are the tax deductions, granted in order to encourage a commercial activity. They are also supposed to promote the investment and creation of jobs. In the oil industry, tax breaks and subsidies were implemented to encourage the exploration of oil. Back then, the oil industry was emerging and it was very risky to get engaged in it since the technology was not as advanced as it is now. The cases of failed exploration and dry wells were high, and these subsidies enabled the companies to offset the arising costs.

At some point of time, tax breaks and subsidies for the other activities within the oil industry were introduced. They covered the exploration, drilling, refining and trading of oil and its products. These tax breaks and subsidies still exist in the modern world, supposedly facilitating active development of the oil industry. This in return would bring generous profits into the economy.

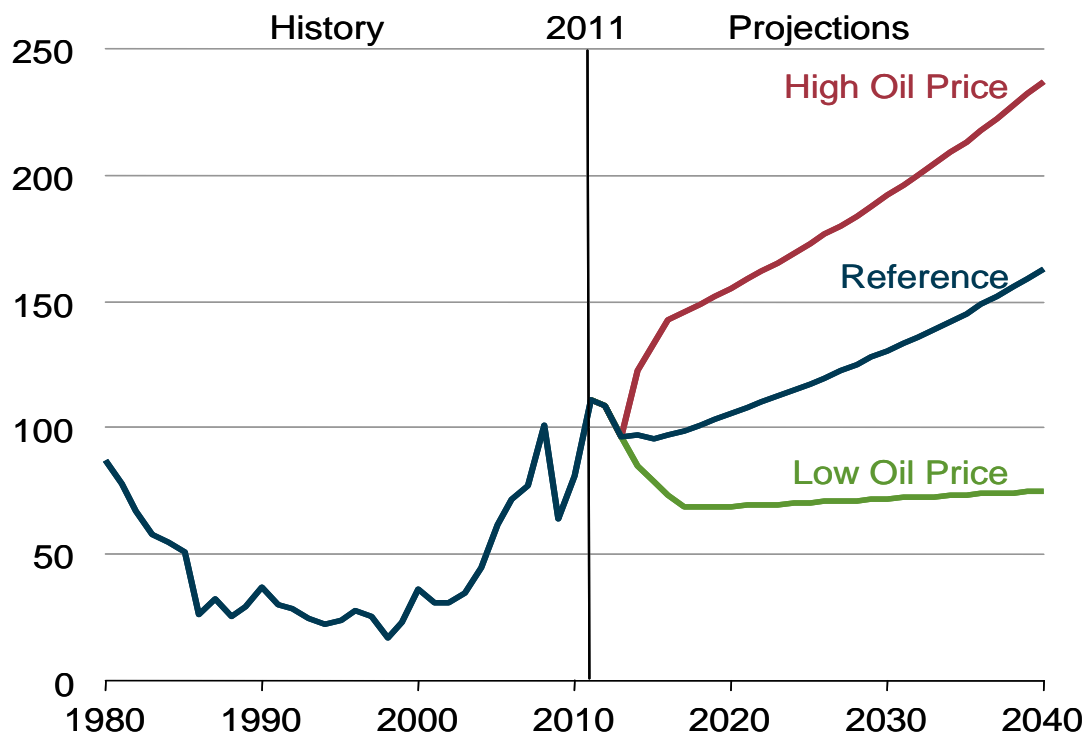
The problem is that most of those policies are outdated. While they are well intended and are serving their purposes, some are absolutely unnecessary as they date back to the times when the incentives for oil exploration were essential, which clearly means it is not the case today. The other strategies are obviously ridiculous, and having no practical use, they make no sense at all (U.S. Energy Information Administration 2013).

These subsidies are funded from the national budget, which keeps taxpayer's money. This money could be saved, putting in mind the current economic state. To be clear, it is not

wrong to give subsidies to the oil industry, although, it is necessary to review the grounds for the subsidies.

Oil Subsidies Are No Longer Needed

Currently, a barrel of oil averages at \$100 and is projected to maintain for the foreseeable future. This is partly due to the instability in the Middle East and the rise in demand of oil. Though the situation in Middle East may improve, the demand is set to rise even more. This means that the \$100 price for a barrel is going to grow (Weissmann). The Energy Information Administration predicts a barrel to go for \$162 by 2040, as the blue line in the figure below illustrates (U.S. Energy Information Administration 2013).



Nowadays, oil companies are raking in huge profits as consumers continue paying high prices for oil products. This means that oil companies are going to have more and more incentives to keep doing business without any external motivation. Though it might be argued that after cutting the tax subsidies, the oil companies will not be profitable enough, however,

cutting back of subsidies would have a minimal effect on the oil industry in the United States. For the reason that the production of oil is steadily growing, and whether there are subsidies or not, production will still continue to be propelled by the high demand.

The Money Be Put To Better Use

The subsidies, which are worth about \$4 billion a year, are relatively minor, especially compared to the federal deficit. However, they can make a difference, rather than travel into the pockets of oil industry businessmen. Outdated policies allow some of the richest businesses to milk the government for row money they do not really need.

This amount of money a year, converting to \$40 billion in ten years, could be invested into Medicare for seniors, where the financing has recently been cut. It also could be invested into Medicaid, which is essential in provision of medical services to the Americans, who are not able to afford private health insurance. It would go a long way in boosting the discretionary funds for the domestic programs. The money is much needed for supporting children, women, and other social services (Weissmann 2013).

The unemployment rate can be greatly reduced if this money is invested in job opportunities as it will lead to a better economy. Moreover, the revitalized economy will be a better use for the money than its investing in oil companies. This would also be beneficial to the tax payers, who have to dig deep into their pockets to sponsor the subsidies oil companies are receiving besides their revenues from the trading oil products and other related services (Weissmann 2013).

Investing in Clean Energy and Environmental Protection

Clean energy is the energy generated from such renewable energy resources as wind, sun and hydropower. They produce little or no pollution and there is no risk of running out of them.

We need to invest in this clean energy as it does not run out and does not contribute to the imminence of the global warming, nor does it degrade the environment. The U.S. government aims at doubling its output of clean energy. As another option, subsidies for oil industry can be reinvested in promotion and development of clean energy. This will lead to less reliance on fossil energy, which produces greenhouse gases and pollutes the air, water and soil, contributing to the global warming.

Thus, by repealing tax breaks and subsidies for oil companies and reinvesting the money into production of clean energy, the government will not only be conserving the environment but also cutting the reliance on fossil fuel and improving the economy through this process. Environment protection is crucial as it ensures a healthy world to live in. Money taken from tax breaks and subsidies can be used in boosting the conservation and protection of the environment (West 2011).

It is not justifiable to continue giving the oil companies tax breaks and subsidies since the oil industry have become one of the richest in the world. Now, there are technological advances in oil exploration, processing and trade, unlike in the past when it was necessary for the tax breaks and subsidies. The billions of dollars put into tax breaks and subsidies can be potentially invested into other sectors, which really need the money.

Works Cited

U.S. Energy Information Administration. "Annual Energy Outlook 2013 Early Release Overview." Projection Report. 2013.

Weissmann, Jordan. "Business; Special Reports." Americas most obvious tax reform idea kill the oil and gas subsidies. 19 March 2013. *The Atlantic*. Web. 27 March.

West, Larry. "Environmental Issues." Should The U-S End Federal Subsidies And Tax Breaks For Oil Companies. 2 May 2011. *About.com*. Web. 27 March 2013.